

"Boosting Credit Cards Penetration as a Banif Growth Strategy. Where is the Value? Strategic Business Plan (for the next 3 years)"

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in Management from NOVA School of Business and Economics

**BOOSTING CREDIT CARDS PENETRATION AS A BANIF
GROWTH STRATEGY. WHERE IS THE VALUE?**

STRATEGIC BUSINESS PLAN (FOR THE NEXT 3 YEARS)

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Abstract

Boosting credit cards portfolio as a Banif growth strategy. Where is the value?

This Work Project was made through an internship in Banif from September until December 2012. Its purpose was to analyse if increased credit cards penetration is a valuable strategy and, if so, how can Banif improve its performance. Taking into account Banif's credit cards portfolio (15.2% of credit card penetration), the Portuguese and banking sector situation, we concluded that Banif can grow in credit cards.

The Work Project is a 3-year strategic business plan for Banif to increase its credit cards penetration, which assumes that, with some key strategic options and within a conservative perspective, Banif can make an increase from 76.140 credit cards (June 2012) to 181.539 credit cards in 2015, achieving about 25% of credit cards penetration.

Keywords: Strategy, Credit Cards, Bank Business Model, Customer Relationship.

1. Introduction

Over the last years Banif has not focused its strategy on credit cards although they are an important part of a bank's product line, with benefits that extend beyond direct profits. Thus, analysing the current Portuguese environment, a question can be made: Should Banif start reinforcing its strategy to grow in credit cards? Are there any limitations? The purpose of this WP is to analyse Banif credit cards portfolio and its procedures, to research if Banif can grow in credit cards. First, an external analysis of the situation in Portugal with its implications for bank business will be provided. Then, an internal analysis including the analysis of Banif portfolio and its processes will be made. Finally, some strategic recommendations will be given.

The data for the WP were collected through interviews and documental analysis. The study is composed of a qualitative research on exploratory and descriptive characteristics of Banif, and of a quantitative research of its portfolio and financial

analysis. First, we made interviews with Dr. Isabela Barreto (Debit and Credit), Eng. Pedro Serpa (Engagement Manager, ATMs and Credit Cards), Dr. Pedro Esteves (Account Manager), Dr. Paulo Almeida (Nucleus Director of Operations and Fraud Control), Dr. Fernando Braga (Payment Products and Consumer Loans Director) and a visit to the Banif branch in Lisbon. We also have a meeting with Visa Consulting Group including Dr. Nathalie Cabos, Dr. Montserrat Larena, Dr. Alfredo Marchese, Dr. Steve Smith and Dr. Paula Antunes da Costa in order to get some insights into benchmark analysis. Second, we used Banif database with about 500,000 card accounts and about 77,000 credit card monthly statements dated June 2011 to June 2012, with total payments, spending balances and debts, the credit granted and credit risk scores. Information regarding deposits, investments and loan relationships (savings, mortgages, insurance, personal loans, among others) was also used. Finally, in order to evaluate macroeconomic and microeconomic information on Portugal (e.g. unemployment rate, average income, among others), we used Pordata and Instituto Nacional de Estatística database, as well as a survey made by the Central European Bank (CEB) between 21 June 2012 and 5 July 2012. The survey was conducted by Banco de Portugal (BdP) in July 2012, and analysed the impact of the current economic and financial situation on households and enterprises on the basis of three ad hoc questions made to a sample of 131 European banks, where 130 banks participated, and 5 Portuguese banks responded.

2. Portugal's Socio-economic environment and its impact on banking sector

Here we analyse the current state and future trends of the credit card business in Portugal. Today, the Euro Zone continues to feel the prolonged effects of the 2008 financial crisis. According to McKinsey (2012), government and companies, and especially banks are concerned about how to avoid such crises in the future, and how to monitor their business through the imminent process of deleveraging (credit reduction).

Context analysis is an essential tool in defining market situation and strategy once it states what is possible and allows for the identification of opportunities and threats of the sector under review. Next we present a PEST analysis.

2.1 PEST analysis

Political & regulatory environment

According to BdP Financial Stability Report (May 2012, in Global Appreciation and Box 1.1), Portugal is following a strict program due to the external financial support of the European Union. With the need to fortify the solvency levels, ECB, imposed new requirements to banks within a deleveraging program: to reinforce the minimum capital ratio core Tier 1 to 10% until the end of 2012 (solvency levels); to reduce the loan-to-deposit ratio to 120% (liquidity of the banks) until December 2014, and to carry out inspections in order to evaluate their credit portfolio. All these impositions made access to credit much more restricted (especially mortgage).

Economic environment

According to INE studies, Portuguese unemployment is increasing, having reached 15% in the second semester of 2012. Portuguese GDP in volume terms (Gross Domestic Product) was -3.5% in the second semester of 2012. Still, the Portuguese economic projection for 2013, made by BdP (in *Boletim Económico* of October 2012, p.71), envisaged a slight contraction (1.6%). In addition, the national minimum wage has stabilized at €485/monthly (*Pordata*) although the average income has decreased (increase of tax burden and reduction of Holiday and Christmas benefits).

Social/Cultural environment

According to Portugal's results in Bank Lending Survey (July 2012), the savings rate increased in the second semester of 2012. Families are adjusting their new consumption levels and prefer to invest their money in savings instead investing money.

Technological environment

NFC technology (Near Field Communication) is a new technology for electronic payments which revolutionizes the way we make them. *Contactless* will be the new generation of bank cards allowing the customer to make a purchase without the use of a PIN code, and simply by placing the card close to a payment terminal. For banks, *Contactless* will mean operation costs reduction and rapidity in compensation processing while for consumers it will make transactions easier and faster (*DN Bolsa* magazine, September 2012). Probably, this technology will be used on mobile phones.

2.2 The State of the Banking Industry

In Financial Stability Report (May 2012, graph 3.2), BdP stated that there is no more room to grow in mortgage as there was in the past. According to Moody's rating review from February 2012, the Portuguese government ratings downgraded from Ba2 to Ba3. Furthermore, in March 2012, Moody's downgraded five Portuguese banks, and, with Banif on a Negative Outlook, moved it from Ba3/Not Prime to B1/Not Prime. Regarding Fitch Rating for November 2011, the Portuguese government, with a Negative Outlook, was downgraded from BBB- to BB+. In addition, in December 2011, Banif Long Term Issuer Default Rating (IDR) was BB with a Negative Outlook, and the Viability Rating (VR) downgraded from B+ to B-.

2.3 The Structure of Banking Sector in Portugal

Concerning the behavioral profile, and according to *Associação Portuguesa dos Bancos* (APB) in Portuguese Bank Sector Overview (March 2012), Portuguese banks used to center their activity on credit to customers (48.8% of the total assets). Indeed, when compared to other European countries, Portuguese have a high tendency to get credit loans, particularly mortgage. According to Dr. Pedro Serpa, banks cannot grow in mortgage any more since banks need liquidity to achieve the ECB requirements.

Furthermore, INE Economic Situation Synthesis (September 2012) concluded that, in the second semester of 2012, the households savings rate was about 10.9%, which was an increase of 0.2% as compared to the previous semester. There was also a 2.6% reduction of the final consumption expenditure, related to the decrease of available income (range -1.2%). In conclusion, the Portuguese tried to spend less and save more.

The Portuguese population is about 10.600.000 people (*Pordata* database). Yet, credit cards are for population at least with 18 years old (about 8.990.000 people).

3. Analysis of Banif' Credit Cards Operations and its Market positioning

3.1 Company presentation

Banif SGPS, SA is a Portuguese private bank founded on 15 January, 1989 in Funchal. According to Dr. Fernando Braga, Banif SGPS, SA operates in four business areas: retail, investment, insurance and Banif+. The organizational structure is based on the existence of a general holding, Banif SGPS, S.A., which is organized into four sub-holdings in different business segments: Banif – Banco Internacional do Funchal, SA, Banif Mais SGPS, SA, Rentipar Seguros SGPS, SA and Banif Brazil SGPS, SA. According to Dr. Pedro Serpa, Banif has a market share of about of 4% in which it operates in Business to Business (b2b) and Business to Consumer (b2c) modes. According to Banif Sustainability Report 2011, Banif has about 3,830 employees in Portugal, 815,962 active clients and several different channels. The direct channels (Banif Annual Report 2011) are agents/brokers with about 343 branches (main channel), call centres, Banif@st (internet and mobile). According to SIBS (June 2012), Banif has about 517 ATMs (Automatic Teller Machines) and about 6,259 POS (Point of Sale Terminals) in Portugal. Regarding alliances, Banif has *Banif Mais, SA*, *Banif Investimentos, SA* and *Banif Açoreana Seguros*.

The biggest supplier of Banif is SIBS Forward Payments Solutions, SA, which is bank-owned and responsible for all the Portuguese banks' electronic payment process and management of terminals (ATM and POS), and the entire process of all the issuers and acquirers in several networks (Visa, MasterCard, and others). It is also SIBS that manages all compensation among banks (checks, cards, and others). Finally, notice that in other European countries banks have to do all the SIBS' tasks by themselves.

According to **Banif Sustainability Report 2012**, the strategy of the bank is to focus on simplification and alignment of the business units, to gain more efficiency by decreasing costs, to invest in short-run credit and to rationalize the business. Banif mission (**Banif Sustainability Report 2011**) is to be a solid and sustainable national and international financial group, and to create value and satisfaction for the clients. Banif vision is to have sustainable growth with a close relationship with clients. In accordance with the mission and vision, Banif follows the Centaur's values: Confidence, Humanism, Efficiency, Innovation and Ambition.

3.2 Credit Card Business model of Banif

According to Dr. Isabela Barreto, Banif is a card issuer who interacts with acquirers on a daily basis through the card payment process, while SIBS is present in all the payment transactions. A payment comprises an Interchange Fee (IF), paid between banks, where the acquiring bank (merchant's bank) pays the fee to the issuing bank (customer's bank) or vice-versa (Reverse IF). According to Dr. Pedro Serpa, credit cards benefits for banks include high interests (an average of 65-70% of the total profits), annuities (an average of 50% of the total profits), servicing by the customers and IF by the acquiring bank (an average of 20% of the total profits). According to SIBS, in June 2012, Banif had a credit card market share of 2.63%. In addition, it is essential to understand to whom and how Banif sells credit cards. Banif business model sells credit

cards to particular clients, non-clients (without Banif current account) and to companies (corporate clients). Non-clients are clients who do not have a current account but who have a specific credit card.

As a product, credit cards do not reach new clients. Most of Banif credit cards are seen as a commodity. In order to examine whether there is value in pursuing a growth strategy in credit cards, we shall study Banif credit cards portfolio in the next section.

3.3 Banif' Credit Card Portfolio

In June 2012, Banif had a diversified portfolio with a total of 12 different credit cards: 7 were particular credit cards (*Simple*, *Classic*, *Excellence*, *Platinum*, *Hello Kitty*, *SATA Imagine* and *Dual*); 2 were corporate cards (*Business*, *Excellence*), issued only for companies, and 3 were particular non-client cards (*SATA Imagine*, *Hello Kitty* and *Simple*). Only *Hello Kitty* (clients can gain *Hello Kitty* gifts) and *SATA Imagine*¹ credit cards were seen as differentiated products by the clients. We conducted the portfolio analysis by separating companies and household customers. These two types of customers lead to different strategies. Households lead Banif to follow a customer-oriented strategy with a b2c approach. Companies lead Banif to perceive each one as a single segment which needs specific approaches (b2b approach). Work Project focuses only on credit cards analysis, the two types of customers will be analyzed separately. Anyway, we need to say that Banif did not have a specific strategy for each type.

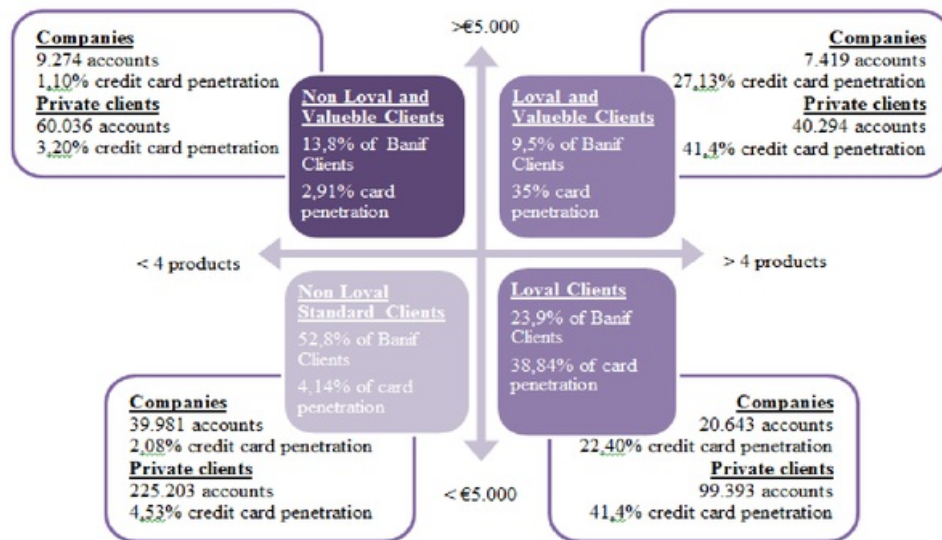
Segmentation

According to Banif Customer Information File (CIF), dated June 2012, it has a total of 815,962 active clients in Portugal, and 502,243 card accounts, among which 76.140 have a credit card (15.16% credit card penetration), 13.6% are households (13.36% particular clients and 0.26% non-clients), and 1.54% are companies. In b2c, most Banif

¹ SATA Group is an Airline Company, affiliated with Star Alliance, where clients can earn plane miles in 27 airline companies, including Lufthansa, TAP, Swissair, and others.

credit card clients are between 25 and 55 years of age and employed, while average credit usage of the portfolio ranges from about €506 to €860 for particular customers (including non-clients). In Exhibit 1 we can see that Particular Clients are the biggest group with highest credit granted and Non-Clients and Corporate clients are poorly explored by the bank. Analysing Banif database, at the end of June 2012, it had 5,45% more credit cards than June 2011. From December 2011 to June 2012 the variation of credit granted was -8.82% which, compared to the growth of the portfolio, leads to the conclusion that even though credit cards portfolio had grown, Banif clients reduced the amount of the credit used. This conclusion may lead to the analysis of the credit cards limits and of the fact if they are adjusted to the customers' needs.

Among Banif particular clients, the cards that had a highest usage rate were *Classic* (with the credit limit of €1,500) and *Excellence* (with the credit limit of €2,500), representing 45% and 18.27% of the total credit granted, respectively. Regarding the corporate segment, the card which had most usage was *Business*, with 14.83% (the credit limits of €1,500) and among particular non-clients, the card which had most usage was *Simple*, with 1.69% (the credit limit of €1,500). Regarding the default in credit cards increase, it registered 8.83% in June 2012 with a total of €3,822,234.20. Regarding attrition rate, since June 2011 a loss of 7,013 credit cards (8.76% of the portfolio) was registered. The major attrition rate was in *Classic* credit card with a loss of 4,330 credit cards (61.7%) while *Simple* credit card (with €1,000 of credit limit) registered the best performance with 7,088 new credit cards (66.2%). In conclusion, Banif particular clients prefer a card with no annuity even though it may have a lower credit limit. In addition, when we deconstructed the card statuses, we found that 52.6% of the credit cards were lost because of the deterioration of the customer's relationship, or because the credit limit was not adjusted to the client's needs.

Figure 1 - Banif Segmentation Model (Source: Banif Database, June 2012)

Banif model takes into account the number of products (more or less than 4 products) and the value on each account (more or less than €5,000). As a result, there are four segments (see in **Figure 1**): Non-Loyal Clients Standard segment (less than 4 products and €5.000), Non-Loyal & Valuable segment (less than 4 products and more than €5.000), Loyal Clients (more than 4 products and less than €5.000) and Loyal & Valuable Clients (more than 4 products and €5.000). We emphasize that these four groups include particular clients and corporate clients irrespectively. Therefore, in order to have a better overview, we made a separate analysis of these two types of clients (see in **Figure 1**). Moreover, 66.6% of Banif portfolio are Non-Loyal clients (Q2 and Q3) who have chosen Banif as a 2nd or 3rd option. These clients only have 3.9% of penetration in credit cards although about 30% of them have saving accounts. On the other hand, 33.4% of Banif clients are Loyal (Q1 and Q4) and 37.61% of them have a credit card. Regarding the credit limits, 50% of the portfolio has an initial credit limit under €1,000, and most of them are Loyal Clients (number 1 in Exhibit 2). Plus, the utilization rate is higher for customers with low limits (number 2 in Exhibit 2), suggesting a missed opportunity for Banif. In conclusion, the average credit limit is

about €2,000 although 50% of the portfolio has initial credit limit under €1,000. Low limits in combination with high level of delinquencies suggest that there may have been adverse selection of the portfolio as a result of an inefficient management of credit limits with risk scoring methods. According to Dr. Pedro Serpa, the credit cards attrition rate is about 16.48% and the inactivity rate is 40-50% of the portfolio. According to the Visa Consulting Group, the average attrition rate among Portuguese banks is between 8% and 10% and the inactivity rate is between 30% and 40%. Following the segmentation model (see Figure 1), we can observe some trends (see Exhibit 3). Thus Banif segmentation model presents some limitations which will be discussed later on.

3.4 Banif's Competitors

The Portuguese bank market is very competitive. Banif competitors include all the bank institutions and non-bank financial institution in Portugal. Bank institutions are direct competitors and non-bank financial institution are indirect competitors.

Direct competitors

According to *Associação Portuguesa de Bancos (APB)*, there are a total of 36 banks operating in Portugal. Among them, five have the highest market-share (are market leaders): *Caixa Geral de Depósitos* (a state bank), *Millenium BCP*, *Banco Espírito Santo*, *Banco BPI* and *Banco Santander Totta*. They have similar positioning, cover the same segments and offer similar products. As Banif is a follower (excluding islands), it makes sense to analyse other followers of the similar size and market share, which include: *Montepio Geral*, *Crédito Agrícola Mútuo*, and *Banco Popular de Portugal*. *Montepio Geral* has the highest figures with more than twice as many active cards as Banif (about 393,455 compared to 860,740 in *Montepio*). *Crédito Agrícola Mútuo* has lower net assets and loans to customers, but has larger numbers of active accounts and active cards than Banif (1,345,692 and 991,112, respectively).

Indirect Competitors

According to *Portal Financeiro*, companies such as *Cetelem*, *Cofidis*, *Credi Agora*, *Ge Money*, *Oney*, *Sonfiloc*, *Unicre*, *UCI* are Banif indirect competitors. These institutions look for customers that want fast credits with low restrictions.

3.5 Banif Market Positioning

Financial Institutions have two sectors: traditional (banks) and fast credit institutions (non-banks). Banif is in traditional bank institution that provides credit, savings and other services. Fast credit institutions (Banif indirect competitors) only provide credit options (e.g. personal loans, among others). Banif is also a follower (excluding islands).

Banif's points of parity with traditional sector are the services and products offered (e.g. deposit accounts, cards, among others). Banif's points of difference are the close relationship with clients and the fact that it is an innovative bank (e.g. the first bank having EMV chip cards). Banif sees itself as a private bank for the community who wants saving, credit or investment solutions (targets), offered with professionalism and a close relationship with the client, and innovative solutions.

4. SWOT Analysis

Strengths

- ✓ Banif has a strong position in the savings market having a high penetration in Q1 and Q2 (see *Exhibit 3*).
- ✓ The usage rate of Banif credit card holders is high, with 90.8%.
 - The usage is high for clients with low limits suggesting a missed opportunity.
- ✓ 33,4% of the Banif's clients are Loyal Clients (Q1 and Q4) and have 37,61% credit cards penetration.
- ✓ Banif is a market leader in Madeira and Azores
- ✓ User-friendly website, with a diverse credit cards line.

Weaknesses

- ✱ Banif's Credit Card penetration is only 15,16%.
 - Competitors' penetration is about 30%². Non-Loyal clients (Q2 and Q3) are about 66,6% of the portfolio and just have a penetration of 3,90%.
- ✱ Banif's attrition rate of 16,48% is high.
 - Competitors have an attrition rate between 8% and 10%². 52.6% of Banif attrition cases have their origin in the customer's relationship deterioration.
- ✱ Banif's branches sales productivity is very low with 3,8 credit cards per month.
 - Competitor's productivity is about 14 credit cards per month².
- ✱ Banif's inactivity is about 40-50%.
 - Competitors' is about 30-40%².
- ✱ Banif's default rate in credit cards is growing too fast passing from 2,96% in December 2010 to 8,83 % in June 2012.
- ✱ Banif credit limits are not efficiently defined (see in **Exhibit 2**).
 - There is no differentiation strategy between clients and non-clients (the scoring model is developed on a sample that contains both groups). It is important that non-clients have a stricter scoring model since Banif does not know their past.
- ✱ Banif just have loyalty programs to *Hello Kitty* and *SATA Imagine* cards.
- ✱ Segmentation model has limitations in what concerns customer's behavior analyses.
 - The distinction between only Loyal/Non-Loyal and Valuable/Non-Valuable clients does not provide the data that are clear enough to evaluate Banif performance and decide which products should be provided for each segment.
- ✱ Banif's reputation was slightly damaged due to the number of dismissals in 2012.
 - Banif may be seen has a non-financial strength and a non-reliable bank.

² According to Visa Consulting

Opportunities

- ✓ There is an opportunity for Banif to start to focus their strategy in credit cards.
- ✓ There is an opportunity for Banif to improve credit card penetration.
 - Segments Q2 and Q3 have just 3,9% of credit card penetration with a high percentage of savings. There is an opportunity to cross-sell and to focus on migrate these clients to Loyal (Q1 and Q4) (see in **Exhibit 3**).
- ✓ Particular Non-Clients and Corporate Clients have a usage of credit card superior of the number of credit cards (see in **Exhibit 1**).
 - They have the need and the financial capacity to comply with their obligations.
Therefore, those clients seem to be a key segment to Banif.
- ✓ Banif sub-holdings *Banif Mais* SGPS, SA and *Banif Açoreana* SA have its own clients and were not explored so far.
- ✓ There is a trend of credit cards with no annuity and a lower credit limit.
 - There is an opportunity to invest in *Simply* Card and adjust credit limits.
- ✓ There is the opportunity to start investing in loyalty programs.
 - They can fortify the customer relationship (reducing attrition), reduce attrition rate and decrease inactivity rate.
- ✓ There is a market gap of offers to customers over 60 years of age.
- ✓ Opportunity for training and processes improvement (e.g. branches).
- ✓ Contactless can be a good push in cards demand and usage.

Threats

- ✗ Payments business is a highly competitive market
 - There are competitors with a stronger position in the market (e.g market leaders).
 - There are other schemes and operators (e.g. PayPal and Google Wallet) growing in the market. Banif is a market follower with many players in the market.

- ✱ Banif makes little advertising and has small brand awareness.
- ✱ Government regulation can change Portuguese trends and thus damage bank business
 - The Portuguese are hostile to credit and price-sensitive to credit cards costs (e.g. annuity, spread). Additionally, the families' default rate is growing.

5. Strategic Recommendations

The analysis that we have done so far helped to produce some evidence to answer the main question of this WP. With SWOT Analysis we concluded that a strategy of increasing credit cards is a valuable source for Banif's growth. Yet there are some limitations. In this section we shall contribute with some strategic recommendations on what Banif could do in order to pursue a growth strategy on credit cards. First, Banif should focus on its own clients with no credit cards or on those who do not use them. Second, Banif should align credit cards strategy with processes improvement. Third, Banif should train and empower its branches teams.

5.1 Improve Banif Operations

I. Segmentation

The goal: A faster understanding of key points to improve and align strategy.

Banif segmentation model (in **Figure 1**) shows some limitations. Banif needs a new model that provides, in short time and without doubt, key information: what are the segments' needs and what are the appropriate products for each segment.

Recommendations

- (a) **Regroup the segments.** The current model (**see in Figure 1**) should continue to be used only to evaluate the portfolio in a more embracing method.
- Particulars should be divided according with their assets (savings, accounts, among others) and their liabilities (monthly income, scoring behaviour, among others). **The new segments for particulars should be:** Students; Standard

(annual income up to €24 thousand); Medium Market (between €24 and €50 thousand); Senior (> 65 years of age; more than €24 thousand); Affluent (between €50 and €500 thousand); Premium (more than €500 thousand).

- Companies should follow a similar method and be divided according to their assets (annual turnover) and liability (manage the risk). **The new segments for companies should be:** Entrepreneur (annual turnover until €2 million); Medium Business (between €2 million and €50 million); Corporate (between €50 million).

(b) Link segments to specific products. Banif should associate specific products to all the segments. For instance, the following products can be associated to Affluent segment: a *Privilege* debit card, an *Excellence* credit card, a health insurance package and a saving account.

II. Credit Limits – Adverse Selection

The goal: Reduce inactivity and attrition rate of credit cards.

An adverse selection had affected the usage of Banif credit cards (see in **Exhibit 2**). Non Loyal Clients (Q2 and Q3), 2nd bank client, have a low initial credit limit yet they have a high usage rate (see **in 1 and 2 in Exhibit 2**) so their limits should be increased.

Recommendations

(a) Readjustment of credit limits. Banif should use the new segmentation model to settle credit limits.

III. Branches productivity

The goal: Build a customer relationship, increase credit cards penetration, acquire new clients and reduce inactivity and attrition.

Average Banif branch sales productivity is 3.8 credit cards sold per month while according to Visa, the market average is 14 credit cards sold per month and per branch. The current goal for each branch is 2 credit cards/month. Regarding the attrition rate (40-50%), the problem lied in the customers' relationship deterioration.

Recommendations

- (a) Set higher goals for branches. We suggest an incremental increase of the branches' goals to 4.5 credit cards per month and per branch in 2013, to 6 credit cards in 2014 and 7 in 2015. Small annual increase will generate significant new accounts growth.
- (b) Creation of incentives for branches. Banif should provide incentives and measures for sales performance in order to assure that the branches are achieving the set goals (e.g. non-financial rewards), and align those incentives with the bank's growth performance (e.g. pay incentives more frequently), as well as also establish a direct relationship between referrals and financial performance measures.

5.2 New Strategic Recommendations

IV. Segments to grow

The goal: Acquire new clients and increase credit card penetration.

Other companies of the group (e.g. *Banif Mais* SGPS, SA and *Banif Açoreana* SGPS, SA) or new partnerships could be a good source of acquiring new clients. With a credit card as a commodity, new innovative options should be taken in order to Banif gain some competitive advantage.

Recommendations

- (a) Invest in Non-Clients. Sub-holding *Banif Mais*, with 130.000 active clients, can be responsible for clients' acquisition while Banif ensures the entire card management. Since Banif does not know this clients' behaviour it should sell them *Simple* credit (lowest credit limit) and the risk can be managed.
- (b) Invest in Senior Segment. There are no credit cards offers targeting specifically to people over 60 years of age. This gap can be an innovative option. In addition, the analysis of the Portugal population³ (total of 10.560.000 residents) shows that about 2.600.000 (25%) is over 60. The average number of years that a person can expect to

³ Pordata database 2011

live after the age of 65 years is growing (currently is about 19 years). It is expected that this segment have greater purchasing power than younger segments (e.g. between 18 to 40 years old). Banif should invest in senior segment with an attractive bundle for credit card usage (e.g. health insurance, discounts in orthopaedic shoes, in Senior Tourism, in Golf or in thermal treatment, among others).

V. Improving Banif operational performance

The goal: Shift Inactivity and Attrition for Retention and Usage

The value of the products is not clear enough to engage customers and the bank's staff to empower to sell credit cards.

Recommendations

- (a) Be proactive and build customer's relationship. Call centres should call cardholder and encourage usage after 1 month of credit cards inactivity. For those who have 4 months of inactivity call centres should reinforce cards benefits. If the inactivity still continues after 1 month, call centres should use promotional measures (e.g. discount rates or cash back benefits).
- (b) Ongoing promotional offers. We suggest three annually seasonal promotional communications using TV commercials, outdoors, SMS and email.
- (c) Seasonal campaigns. We suggest *Back-to-School Campaign*, in August and September, where Banif can offer 10% discount for purchases made at bookstores and paid with credit card (target are students and parents). Similarly, *Holiday Campaign* in July and August may offer 10% discounts in hotels and package trip.

VI. Cross-Sell, Cross-Sell, Cross-Sell

The goal: Increase credit card penetration and migrate Non-Clients to Loyal Clients.

Recommendations

- (a) Cross-Sell with attractive advantages. For segments Q1, Q2 and Q3 Banif should offer a better savings rate if the clients become active credit card users. For Q3 and

Q4 (see Exhibit 3), Banif can offer 20% additional insurance coverage (at no charge) or 10% interest rate bonus on balances over €5,000. To Q4 Banif can offer a rate reduction on personal loans or skip-a-payment once a year with no penalty.

- (b) Offering compelling accounts. According to Banif database, 73% of non-clients have *SATA* credit cards. Banif should offer airline miles or free companion ticket for *SATA* clients. Then Banif can sell differentiated products and try to make loyal customers.
- (c) Make *Hello Kitty* more visible. Banif should use Hello Kitty displays in the windows' branches and advertise it in shopping malls, creating awareness.

VII. Loyalty Program

The goal: Decrease inactivity, create a differentiator offer and increase loyal clients.

Banif had 69,172 credit cards transactions until June 2012. Purchase was the dominant transaction (82% of value). Excluding *Hello Kitty* and *SATA* cards (with autonomous loyalty programs), 51,007 credit cards presented movements in purchases during the year 2012. Only 8,172 credit cards (15.29%) had an annual purchasing volume of more than €3,000 (or 250 € monthly).

Recommendation

- (a) Loyalty program. Banif should make a showroom with attractive gifts (goods or services) that monthly changes. The clients shall receive points (1€ = 1 point) each time they use credit card and eventually swap the points for the rewards.

VIII. Partnerships

The Goal: Decrease inactivity, increase penetration and acquire new clients.

Recommendation

- (a) Advertising. Banif should advertise partnership advantages to credit card holders.
- (b) Make new partnerships. Banif should make partnerships with petrol stations, football clubs, Fnac, Vodafone, cinemas, local shops in Madeira and Acores, etc.

6. Financial Analysis

Figure 2 – Banif Credit Cards Situation (Source: Banif database from June 2012)

Credit Cards	Wallet (Un.)	Trans. Com. (€)	Servicing (€)	Annuities (€)	Interest (€)	Revenue (€)	Costs (€)	Net Profit
Particular	68.519	1.010.565	391.536	670.419	2.473.719	4.546.239	454.054	4.092.185
Companies	7.621	186.911	109.791	150.129	554.366	1.001.197	97.931	903.266
TOTAL	76.140	1.197.476	501.327	820.548	3.028.085	5.547.436	551.985	4.995.451

In June 2012, Banif had a Net Profit of €4,995.45. The costs were significantly low when compared to the revenue (see **Figure 3**), giving the bank a high margin. Banif revenues are constituted by transfers commissions (cash advance to current account), servicing (e.g. card emission and increase of the credit limit), Annuities and Interest rates. In what concerns the costs, they are constituted by processing costs (e.g. IF), card costs, insurance (e.g. *Açoreana*), equity and default costs. Assuming an attrition rate of 16.48%, the productivity of 3.8 credit cards sold/per month per branch and a growth of 10,000 credit cards each year (normal Banif growth) the results are the following:

Figure 3 – Banif Growth without applying Strategic Recommendations (Source: Banif database of June 2012)

	2012	2013	2014	2015
Current portfolio	76.140	63.592	53.112	44.359
BAU Growth	-	10.000	18.352	25.328
Total Account	76.140	73.592	71.464	69.687

6.1 Forecast Analysis

Assuming some strategic recommendations made in **section 6**, we will present a conservative incremental growth scenario for Banif credit cards portfolio for the next 3 years (see **Figure 4**). The assumptions are the following: the attrition rate will be 12% in 2013 and 10% in following years; a total of 343 branches with a productivity of 4.5 credit cards/month in 2013, 6 in 2014 and 7 in 2015; Cross selling to particular clients in savings (Q1, Q2 and Q3), in insurance (Q3 and Q4) and skip-a-payment (Q4); a

SATA campaign to companies (Q1 and Q2) and to particulars (Q1 and Q2) and to *SATA* non-nlients; *Hello Kitty* campaign directed towards 30% of Banif particular clients and non-clients (women between 18-35 years of age); Back-to-School for 30% of particular clients and non-clients (man/women between 18-50 years of age, with or without children, and students). As a result Banif would increase credit card penetration in 10% where cards accounts would grow from 502.243 to 726.539 in 2015 and the total growth of credit cards would be 181.539 credit cards in 2015. The market share in credit cards will increase from 2,63% to 5,48% (*ceteris paribus*).

Figure 4 – Incremental Annual Account Growth Opportunity (Source: WP's forecast)

	2012	2013	2014	2015
Improved Retention	-	3.046	6.862	10.049
Branch Sales	-	2.881	18.234	16.411
Cross-Sell	-	7.324	21.092	33.630
Campaigns	-	19.228	36.149	51.762
Total Credit Cards		32.479	82.337	111.852

6.2 P&L Analysis

For the calculation of incremental revenues and costs we have considered the evolution of the last years and a discount rate of 8%. The investment that Banif has to make in order to implement the above-mentioned strategies is about €451.59 in each year. In the P&L analysis (see [Exhibit 4](#)), we can see a positive evolution. The incremental profits foreseen are €1,145,930 in 2013, €4,432,538 in 2014 and €6,381,495 in 2015, while NPV shall be about €9,927,389.65.

7. Conclusion

Banif portfolio analysis has showed that Banif can grow in credit cards penetration (15.2%). High inactivity, low retention, low usage, high attrition rate were found as the source of the problem. Therefore we suggested some strategic options. First, the key is to focus on the definition of a stronger strategy. Processes, teams and Banif strategy

have to be all aligned. Then, according to the chosen strategy, Banif should create new measures and actions to improve its performance. The above-mentioned recommendations may improve the segmentation model, redefine the credit limits, train the branches teams, create a loyalty program, encourage cross-selling, intensify advertising and make partnerships benefits known. And with those strategic recommendations Banif can increase its credit cards portfolio by 111,852 in 2015, moving from credit cards 76,140 in June 2012 to 181,539 in 2015. The credit card penetration will grow 10%. This study shows the potential of the suggested improvements and the importance of the bank's proactive role.

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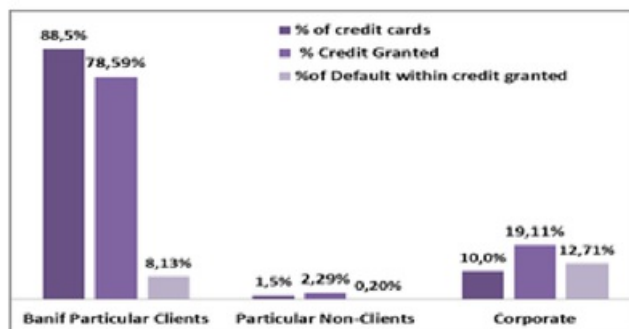
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9. Appendix

Exhibit 1 - Usage and credit granted in Banif Credit Cards at the end of June 2012



Source – Banif Database of June 2012.

Exhibit 2 - Utilization and Credit Limits by Decile (Source: Banif Database, June 2012)

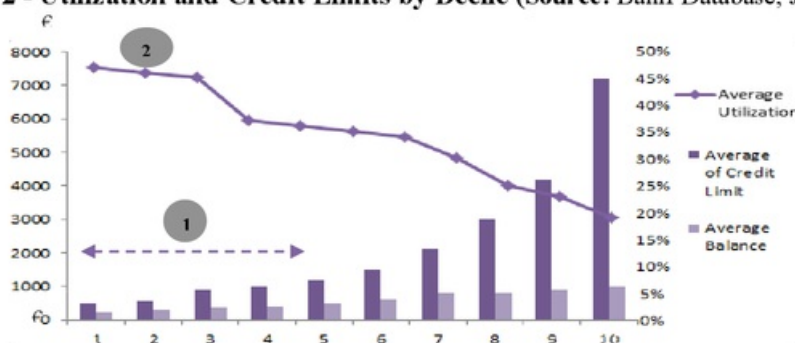
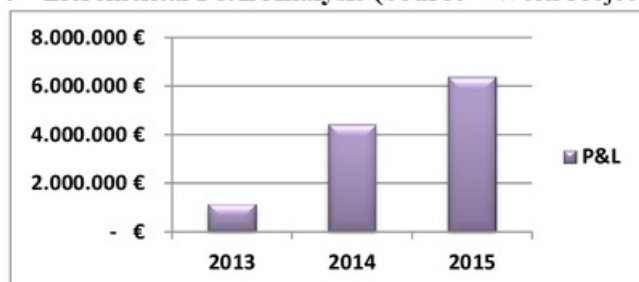


Exhibit 3- Trends among segments Source – Banif Database of June 2012.

Q2			Q1		
Non-Loyal & Valuable	Time Deposit	Savings Accounts	Loyal & Valuable	Time Deposit	Savings Accounts
Particular	47%	13%	Particular	56%	27%
Companies	66%	35%	Companies	71%	55%

Q3			Q4		
Non-Loyal	Insurance	Savings accounts	Loyal Clients	Insurance	Personal Loans
Particular	17%	5%	Particular	43%	17%
Companies	12%	27%	Companies	36%	32%

Exhibit 4 – Incremental P&L Analysis (Source – Work Project forecast).



"Boosting Credit Cards Penetration as a Banif Growth Strategy. Where is the Value? Strategic Business Plan (for the next 3 years)"

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